
LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

DECEMBER 31, 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 10/21/09



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LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

DECEMBER 31, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Louisiana Artists Guild

We were engaged to audit the accompanying statement of financial position of Louisiana Artists Guild (the Guild) as of December 31, 2008 and 2007 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Guild's management.

We were unable to obtain sufficient audit evidence relating to the carrying value of the Guild's Property, Plant and Equipment totaling \$25,888,695 as of December 31, 2008 because the Guild did not perform an impairment valuation as required by U.S. generally accepted accounting principles. We were unable to satisfy ourselves about the valuation of the Property, Plant and Equipment by means of other auditing procedures.

The accompanying financial statements have been prepared assuming that the Guild will continue as a going concern. As discussed in Note 2 to the financial statements, the Guild is in default on certain covenants of its loan agreements at December 31, 2008, primarily as a result of construction costs in excess of funding and continuing operating losses. The Guild has a working capital deficiency of \$4,764,627 as of December 31, 2008 and was in arrears on certain vendor accounts. The Guild is not aware of any alternative source of capital to meet such demands, if made. The lenders may demand repayment of the loans. No such demand has been made. Negotiations are presently under way to obtain revised loan agreements to permit the realization of assets and the liquidation of liabilities in the ordinary course of business. The Guild cannot predict what the outcome of the negotiations will be. These conditions raise substantial doubt about the Guild's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Because of the significance of the uncertainty of the going concern matter discussed in the preceding paragraph and because we were unable to satisfy ourselves as to the carrying value of the Property, Plant and Equipment, as discussed in the second preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009 on our consideration of the Guild's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Metairie, Louisiana
September 30, 2009

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LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

	2008		
	Unrestricted	Temporarily Restricted	2008 Total
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ (6,542)	\$ 20,000	\$ 13,458
Pledges receivable, current portion, net of discount of \$5,769	50,000	2,861,507	2,911,507
Prepaid expenses	66,483	-	66,483
Construction account	70,633	-	70,633
Deposit	10,030	-	10,030
Inventory	71,503	-	71,503
Total current assets	262,107	2,881,507	3,143,614
<u>DEBT SERVICE RESERVE ACCOUNT</u>	740,413	-	740,413
<u>PROPERTY, PLANT, & EQUIPMENT,</u> net of accumulated depreciation of \$434,760	25,888,695	-	25,888,695
<u>TOTAL ASSETS</u>	<u>\$ 26,891,215</u>	<u>\$ 2,881,507</u>	<u>\$ 29,772,722</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES</u>			
Accrued liabilities	\$ 2,721,500	\$ -	\$ 2,721,500
Line of credit	2,360,596	-	2,360,596
Total current liabilities	5,082,096	-	5,082,096
<u>NON-CURRENT LIABILITIES</u>			
Accrued liabilities, long term	2,062,132	-	2,062,132
Due to Arts Council of New Orleans	1,505,969	-	1,505,969
Line of credit	164,683	-	164,683
Loan payable	7,047,138	-	7,047,138
<u>TOTAL LIABILITIES</u>	<u>15,862,018</u>	<u>-</u>	<u>15,862,018</u>
<u>NET ASSETS</u>	<u>11,029,197</u>	<u>2,881,507</u>	<u>13,910,704</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 26,891,215</u>	<u>\$ 2,881,507</u>	<u>\$ 29,772,722</u>

(continued)

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

	2007		
	Unrestricted	Temporarily Restricted	2007 Total
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 135,306	\$ -	\$ 135,306
Pledges receivable, current portion	975	2,881,368	2,882,343
Prepaid expenses	66,483	-	66,483
Construction account	69,715	-	69,715
Deposit	10,030	-	10,030
Inventory	71,503	-	71,503
Total current assets	354,012	2,881,368	3,235,380
<u>PLEDGES RECEIVABLE, NONCURRENT</u>			
net of discount of \$11,514	-	138,486	138,486
<u>DEBT SERVICE RESERVE ACCOUNT</u>			
	730,827	-	730,827
<u>CONSTRUCTION IN PROGRESS</u>			
	25,436,538	-	25,436,538
<u>EQUIPMENT, net of accumulated depreciation</u>			
of \$30,367	796,173	-	796,173
<u>TOTAL ASSETS</u>	<u>\$ 27,317,550</u>	<u>\$ 3,019,854</u>	<u>\$ 30,337,404</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES</u>			
Accrued liabilities	\$ 2,362,816	\$ -	\$ 2,362,816
Line of credit	2,360,596	-	2,360,596
Total current liabilities	4,723,412	-	4,723,412
<u>NON-CURRENT LIABILITIES</u>			
Accrued liabilities, long term	1,626,696	-	1,626,696
Due to Arts Council of New Orleans	1,505,969	-	1,505,969
Line of credit	164,775	-	164,775
Loan payable	7,047,138	-	7,047,138
<u>TOTAL LIABILITIES</u>	<u>15,067,990</u>	<u>-</u>	<u>15,067,990</u>
<u>NET ASSETS</u>	<u>12,249,560</u>	<u>3,019,854</u>	<u>15,269,414</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 27,317,550</u>	<u>\$ 3,019,854</u>	<u>\$ 30,337,404</u>

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008		
	Unrestricted	Temporarily Restricted	2008 Total
<u>SUPPORT AND REVENUE</u>			
Support			
Grants and contributions	\$ 516,274	\$ 394,920	\$ 911,194
Revenue			
Interest and other income	65,268	-	65,268
Total support and revenue	581,542	394,920	976,462
<u>NET ASSETS RELEASED FROM RESTRICTIONS</u>	533,267	(533,267)	-
<u>EXPENSES</u>			
Development	15,869	-	15,869
Administration	1,407,130	-	1,407,130
Building operations	726,106	-	726,106
Programs	186,067	-	186,067
Total expenses	2,335,172	-	2,335,172
<u>CHANGE IN NET ASSETS</u>	(1,220,363)	(138,347)	(1,358,710)
<u>NET ASSETS AT BEGINNING OF YEAR</u>	12,249,560	3,019,854	15,269,414
<u>NET ASSETS AT END OF YEAR</u>	\$ 11,029,197	\$ 2,881,507	\$ 13,910,704

(continued)

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2007		
	Unrestricted	Temporarily Restricted	2007 Total
<u>SUPPORT AND REVENUE</u>			
Support			
Grants and contributions	\$ 565,942	\$ 25,000	\$ 590,942
Revenue			
Interest and other income	74,311	24,770	99,081
Total support and revenue	640,253	49,770	690,023
<u>NET ASSETS RELEASED FROM RESTRICTIONS</u>	1,751,044	(1,751,044)	-
<u>EXPENSES</u>			
Administration	905,905	-	905,905
Building operations	41,117	-	41,117
Programs	7,563	-	7,563
Retail store	10,500	-	10,500
Inventory write-down	236,000	-	236,000
Total expenses	1,201,085	-	1,201,085
<u>CHANGE IN NET ASSETS</u>	1,190,212	(1,701,274)	(511,062)
<u>NET ASSETS AT BEGINNING OF YEAR</u>	11,059,348	4,721,128	15,780,476
<u>NET ASSETS AT END OF YEAR</u>	\$ 12,249,560	\$ 3,019,854	\$ 15,269,414

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in net assets	\$ (1,358,710)	\$ (511,062)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	404,393	6,649
Inventory write-down	-	236,000
Write off of pledge receivable	4,975	-
Discount on pledge receivable	(5,745)	(49,753)
Net change in operating assets and liabilities:		
Pledges receivable	110,092	1,751,027
Inventory	-	10,500
Other Assets	(918)	(3,162)
Due to Arts Council of New Orleans	-	(71,539)
Accrued liabilities	794,120	(1,031,527)
Net cash provided by (used in) operating activities	<u>(51,793)</u>	<u>337,133</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Payments for property, plant, and equipment	(60,377)	(276,401)
Cash paid to restricted debt fund	(9,586)	(33,123)
Net cash used in investing activities	<u>(69,963)</u>	<u>(309,524)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from loans	-	400,035
Principal payments	(92)	(855,000)
Net cash used in financing activities	<u>(92)</u>	<u>(454,965)</u>
<u>NET DECREASE IN CASH</u>	<u>(121,848)</u>	<u>(427,356)</u>
<u>CASH AT BEGINNING OF YEAR</u>	<u>135,306</u>	<u>562,662</u>
<u>CASH AT END OF YEAR</u>	<u>\$ 13,458</u>	<u>\$ 135,306</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for:		
Interest	<u>\$ 49,097</u>	<u>\$ 70,218</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Organization and Operations

The Louisiana Artist Guild (the Guild) a non-profit was incorporated in 1995 (amended on November 12, 2008) to plan, create, encourage, promote, nurture, produce and provide access to the activities, economic environment, physical environment and educational showcase of individual Louisiana artists and the arts in Louisiana. The Guild, dba Louisiana Artworks has developed and constructed a five story (93,000 sq. ft facility) multi-use arts complex in New Orleans, devoted to providing access to visual artists at work, an educational resource center, and a public venue. Substantial completion of the first three floors has provided active programming and operations in the building since May 2008. Construction of the remaining floors continues.

2. Going Concern Consideration

At December 31, 2008, current unrestricted liabilities exceed current unrestricted assets by \$4,764,627. The general contractor of the arts complex halted construction in November 2004 and construction resumed in June 2007. The arts complex is the Guild's major operating asset, and its commencement of full operations is uncertain at this time. Temporarily restricted funds of \$2,861,507 are insufficient to pay outstanding amounts for construction to complete the project and fund administrative costs including payroll. The Guild defaulted on its debt agreements and was required to obtain waivers of the provisions of those agreements. A waiver was not obtained for one of those agreements. These factors, as well as the uncertain conditions regarding its loan agreements, as discussed in Note 7, create an uncertainty about the Guild's ability to continue as an ongoing concern.

Management of the Guild is doing extensive fundraising and is working with the City of New Orleans and State of Louisiana to provide the cash flow necessary to complete the project. The ability of the Guild to continue as a going concern is dependent on successful negotiations with the City, State, financing institutions, the general contractor of the arts complex and the success of fundraising.

The financial statements do not include any adjustments that might be necessary if the Guild is unable to continue as a going concern.

3. Summary of Significant Accounting Policies

Method of Accounting

The financial statements are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Use of Estimates (continued)

assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Description of Net Assets Classification

Financial Accounting Standards Board (FASB) Statement No. 117 entitled "Financial Statements of Not-For-Profit Organizations" requires that net assets and changes in net assets be reported for three classifications – permanently restricted, temporarily restricted and unrestricted – based on the existence or absence of donor imposed restrictions. Unexpended funds solicited through the Capital Campaign are considered temporarily restricted. The Guild records receipts of contributions with donor-imposed conditions as refundable advances.

Gifts, Grants and Bequests

Gifts, grants and bequests are recorded as revenues in the period received and as assets, or as decreases in liabilities or expenses depending on the form of benefits received. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk free market interest rates. There is no allowance for uncollectible pledges because management believes all amounts recorded are collectible. Non-cash gifts, grants and bequests are recorded as revenue at the fair market value at the date contributed, if an objective valuation is determinable.

Donated Services

Volunteers have given extensive amounts of time and services to the Guild. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria necessary for financial accounting recognition.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method. An inventory allowance of \$236,000 was recorded during the year ended December 31, 2007.

Property, Plant and Equipment

Equipment consists primarily of studio equipment for the arts complex and office equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

assets of three to five years. Depreciable assets are valued at their cost if purchased or their estimated fair value at the time of donation if contributed.

At December 31, 2007, the Guild's construction in progress of \$25,436,537 consists primarily of buildings and land acquired in 1998, capitalized architect's fees, capitalized interest and construction costs related to the project. During the year ended December 31, 2007, interest expense of \$192,756 was capitalized. In 2008, the building was placed in to service. Depreciation is computed using the straight-line method over the estimated useful life of the building of thirty-nine years.

Concentration of Credit Risk

Financial instruments that potentially expose the Guild to concentrations of credit and market risk consist primarily of cash equivalents. Cash equivalents are maintained at high-quality financial institutions, and credit exposure is limited at any one institution.

The Guild had cash deposits in excess of federally insured limits at a local institution totaling \$561,046 at December 31, 2008.

Income Taxes

The Guild is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, and accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Guild considers all investments with an original maturity of ninety days or less to be cash equivalents.

Advertising

The Guild records advertising as expenses when the costs are incurred. Costs of producing advertisements such as the costs of idea development, writing advertising copy, artwork, printing, audio and video crews and other costs are expensed as incurred during production. Costs of communicating advertisements that have been produced, such as the costs of magazine space, television airtime, billboard space and distribution are expensed when the item or service is received or provided. Advertising expenses in 2008 and 2007 were \$7,811 and \$1,729, respectively.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

4. Pledges Receivable

Pledges receivable at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 2,917,276	\$ 2,882,343
Receivable in one to five years	-	150,000
Total pledges receivable	<u>2,917,276</u>	<u>3,032,343</u>
Less discounts to net present value -- rate 4.50%	<u>(5,769)</u>	<u>(11,514)</u>
Net pledges receivable at year end	<u><u>\$ 2,911,507</u></u>	<u><u>\$ 3,020,829</u></u>

Included in pledges receivable at December 31, 2008 and 2007 is approximately \$2,697,000 and \$2,727,000, respectively, from the State of Louisiana. State funds have been recognized as revenue when they are classified by the State as a priority one or two project in the State's capital appropriation budget. State funds with a higher numbered priority are classified as conditional pledges and not realized as revenue.

5. Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Building	\$ 25,461,099	\$ -
Studio and other equipment	693,552	684,270
Office equipment	142,270	142,270
Machinery	18,104	-
Furniture and Fixtures	8,430	-
Construction in progress	-	25,436,538
Less accumulated depreciation	<u>26,323,455</u>	<u>26,263,078</u>
	<u>(434,760)</u>	<u>(30,367)</u>
Net property and equipment	<u><u>\$ 25,888,695</u></u>	<u><u>\$ 26,232,711</u></u>

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

6. Loans Payable

The Guild has outstanding balances on lines of credit with local financial institutions of \$2,525,279 and \$2,525,371 at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, interest is due monthly at rates ranging from 3.25% to 7.25% and from 6.0% to 8.75%, respectively.

The Guild has a balance of \$2,360,596 on a \$3,000,000 collateral mortgage as of December 31, 2008 and 2007, which became due on December 28, 2008. The Guild has not made any principal or interest payments on the line of credit and is in default of the line of credit. The accrued interest on the line of credit is \$166,688 and \$1,446 at December 31, 2008 and 2007, respectively.

The Guild has a balance of \$164,683 on a \$250,000 line of credit which is due on June 20, 2010.

The Guild obtained a HUD Section 108 Loan in the amount of \$7,100,000 from the City of New Orleans (City) to be used solely for the development and construction of the ArtWorks project. The maturity date of the loan is July 15, 2022. The terms of the note require interest to be paid quarterly. Principal is payable in quarterly installments which began October 15, 2003. The specified interest rate is 6.62%; however, the City elected to defer collection of 1% during the period of construction. The quarterly payments of principal and interest are in the amount of \$152,587, and quarterly principal payments range from approximately \$53,000 to \$150,000 during the life of the loan. The Guild, however, has not made any interest or principal payments since October 15, 2003 and is technically in default of the loan. The City has agreed to waive the default provisions until after December 31, 2009.

In order to secure the repayment of the loan and other amounts to the City, the Guild has deposited funds into the Debt Service Reserve Account and the Construction Account. These funds are held in escrow accounts at a local financial institution. All amounts held in the Debt Service Reserve Account and the Construction Account serve as security for amounts due to the City by the Guild pursuant to the Loan Agreement. In addition, the land, building construction, accounts, inventory, furniture, fixtures and equipment are collateral for the debt as well as future income and rentals.

The debt repayment is as follows:

Fiscal year ending December 31,	2009	\$	1,517,386
	2010		306,042
	2011		323,602
	2012		342,170
	2013		361,803
	2014 and thereafter		4,196,135
		\$	<u>7,047,138</u>

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

6. Loans Payable (continued)

The accrued interest on the HUD Section 108 loan was \$2,062,132 and \$1,626,696 as of December 31, 2008 and 2007, respectively, and the unpaid principal balance was \$1,227,955 and \$954,222 as of December 31, 2008 and 2007, respectively. The accrued interest balances are recorded as long-term on the statements of financial position.

For the years ended December 31, 2008 and 2007, the Guild incurred interest expense of \$775,531 and \$425,195, respectively.

7. Arts Council of New Orleans

The Articles of Incorporation of the Guild specified that all Guild members and the Board of Directors are selected by and serve at the pleasure of the Board of Directors of the Arts Council of New Orleans (ACNO). The Articles also provided that in the event of dissolution, all of the Guild's property shall be distributed and paid over to ACNO. The Bylaws were amended in April 2007 so that the Guild has a Board of Directors that is independent of the Board of Directors of ACNO.

Through May 2007, the Guild shared office space with ACNO. Certain employees of ACNO also served as employees of the Guild. Salary expense, supplies, utilities, insurance and certain administrative expenses were allocated to the Guild based on the percentage of time the employee dedicated to the Guild. Certain Guild expenses were also paid by ACNO and are accounted for as Due to Arts Council of New Orleans.

8. Commitments and Contingencies

The general contractor and several of its subcontractors have filed lawsuits against the Guild based on the failure of the Guild to pay for work performed in connection with the art complex. During the year ended December 31, 2007, a settlement agreement was reached with the general contractor in which the Guild agreed to consent judgments for sums owed. The agreement further provides for the general contractor to complete the work and for additional time for the Guild to make payments to the general contractor. If, however, the Guild defaults on its payment schedule, the general contractor will have the rights to execute its consent judgment against the Guild.

During the year ended December 31, 2008, two partial consent judgments were reached. The first consent judgment requires the Guild to pay \$1,691,061 to the vendor plus interest at a rate of 8% per annum beginning on April 5, 2007, until paid. The second consent judgment requires the Guild to pay an additional amount of \$545,872 plus interest at the rate of 8% per annum beginning on December 17, 2008, until paid. At December 31, 2008, the amount due to the general contractor was \$2,402,196. This balance is included in accrued liabilities on the statement of financial position.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies (continued)

During the year ended December 31, 2008, the general contractor completed the work on the art complex.

9. Restatement

An error in construction in progress and accrued liabilities was identified which impacted prior year financial statements. This error resulted in a restatement which increased construction in progress and accrued liabilities by \$1,516,706 as of December 31, 2007. The error has no affect on net assets.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SINGLE AUDIT REPORTS

DECEMBER 31, 2008



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LOUISIANA ARTISTS GUILD
New Orleans, Louisiana

Single Audit Reports

December 31, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Louisiana Artists Guild

We have audited the financial statements of the Louisiana Artists Guild (the Guild) as of and for the year ended December 31, 2008, and have issued our report thereon dated September 30, 2009, which expressed a disclaimer of opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Guild's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Guild's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Guild's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Guild's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Guild's financial statements that is more than inconsequential will not be prevented or detected by the Guild's internal control. We consider the deficiencies described in the accompanying schedule of findings as 2008-1, 2008-3, and 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more-than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Guild's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant

deficiencies that are also considered to be material weaknesses. However of the significant deficiencies described above, we consider items 2008-1 and 2008-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Guild's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2008-2.

The Guild's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Guild's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, State of Louisiana Legislative Auditor's Office, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Nettlesville

Metairie, Louisiana
September 30, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the Board of Directors
Louisiana Artists Guild

Compliance

We have audited the compliance of the Louisiana Artists Guild (the Guild) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. The Guild's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Guild's management. Our responsibility is to express an opinion on the Guild's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Guild's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Guild's compliance with those requirements.

In our opinion, the Guild complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2008-5.

Internal Control Over Compliance

The management of the Guild is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Guild's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the Guild's internal control over compliance.

A control deficiency in the Guild's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Guild's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Guild's internal control. We noted no matters in internal control over compliance which we considered to be a control deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Guild's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guild as of and for the year ended December 31, 2008, and have issued our report thereon dated September 30, 2009, which expressed a disclaimer of opinion. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Guild's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Guild's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, State of Louisiana Legislative Auditor's Office, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:313, this report is distributed by the Legislative Auditor as a public document.

Robert H. Waitt - Metairie

Metairie, Louisiana
September 30, 2009

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor/Pass through/Program Title	CFDA Number	Pass through Entity (identifying number outstanding)	Federal expenditures
<u>United States Department of Housing and Urban Development</u>			
Pass through from City of New Orleans			
Community Development Block Grants			
Section 108 Loan Guarantees	14.248	Loan # BA Series 2002-A Note B-01-MC-22-0006-A	\$ 7,047,138 (2)
<u>National Endowment for the Arts</u>			
Promotion of the Arts - Grants to			
Organizations and Individuals	45.024		40,000
Total Federal Awards			\$ 7,087,138

FOOTNOTES

- (1) Basis of Presentation
This schedule includes the activity of the federal awards of the Louisiana Artist Guild and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
- (2) Amount of loan and guarantee at December 31, 2008.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: disclaimer
- (b) Internal control over financial reporting:
 - Material weakness identified: yes
 - Significant deficiency identified not considered to be a material weakness: yes
 - Noncompliance material to the financial statements noted: no

(2) Federal Awards

- (a) Internal control over major programs:
 - Material weakness identified: no
 - Significant deficiency identified not considered to be a material weakness: no
- (b) The type of report issued on compliance for major programs: unqualified
- (c) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: yes
- (d) Major program:

<u>Name of Federal Program</u>	<u>CFDA No.</u>
Community Development Block Grants	
Section 108 Loan Guarantees	14.248

- (e) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
 - (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: no
- (3) Findings Relating to the Financial Statements Reported In Accordance with *Government Auditing Standards*: yes
- (4) Findings and Questioned Costs Relating to Federal Awards: yes

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

Findings Related to the Financial Statements Reported in accordance with Government Auditing Standards:

2008-1 Internal Control Over Financial Reporting

Criteria:	The definition of internal control over financial reporting is that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertions embodied in the annual financial statements, which for the Guild is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Our responsibility under current audit standards requires us to communicate this issue to management and the Board of Directors.
Condition:	We proposed a number of material adjusting entries.
Cause:	Management did not perform sufficient review of preliminary financial statements to identify adjustments required.
Effect:	The reported financial statements differed from management's internal financial statements.
Recommendation:	The Guild should identify required adjustments to the general ledger and record adjustments as necessary for proper financial reporting.
Management's Response and corrective actions:	Management will work with accounting to ensure that adjustments are made in a timely fashion.

2008-2 Timely Submission of Audit Report to Legislative Auditor

Criteria:	Under Louisiana statute, the Guild is required to have an annual audit of its financial statements prepared in accordance with US generally accepted accounting principles and to complete the audit and file it with the Legislative Auditor of the State of Louisiana by June 30 of each year.
Condition:	The Guild did not meet the June 30, 2009 deadline for reporting to the State of Louisiana. The Guild did request and received an extension of time until September 30, 2009 from the Legislative Auditor to file its financial statements.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

Part I - Findings Related to the Financial Statements Reported in accordance with Government Auditing Standards (continued)

2008-2 Timely Submission of Audit Report to Legislative Auditor (continued)

Cause:	The Guild required additional time to determine if a valuation of the art complex could be obtained. Management was in negotiations with the City of New Orleans to restructure payments on the HUD loan. The amount due to the Arts Council of New Orleans was in dispute.
Effect:	The inability of the Guild to determine if a valuation could be obtained, ongoing negotiations with the City of New Orleans regarding the HUD loan, and the dispute regarding the amount owed to the Arts Council of New Orleans resulted in the audit completion date being delayed.
Recommendation:	No specific recommendation.
Management's Response and corrective actions:	Management is in the process of determining if an effective valuation can be obtained. Management is currently in negotiations with the City of New Orleans and HUD regionally regarding the HUD loan. Discussions continue with the Arts Council of New Orleans regarding the amounts owed.

2008-3 Default on Line of Credit

Criteria:	Debt payments are to be made timely.
Condition:	The Guild was in default on a \$2,360,596 line of credit, with accrued interest due of \$166,688, from a local financial institution at December 31, 2008. The note matured on December 28, 2008 and no payments have been made as from this date through December 31, 2008.
Cause:	Due to cash flow problems the Guild has been unable to meet the debt requirements.
Effect:	The loan was in default according to its terms during the year ended December 31, 2008.
Recommendation:	We recommend that the Guild resolve the existing default condition with the financial institution.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

Part I - Findings Related to the Financial Statements Reported in accordance with Government Auditing Standards (continued)

2008-3 Default on Line of Credit (continued)

Management's
Response and
corrective actions:

Management is seeking additional funding from various federal, local, and private sources to complete construction of the building in order to activate all revenue sources. Management continues to do active fundraising to maintain and increase cash inflow.

2008-4 Building

Criteria: Generally accepted accounting principles require the Property, Plant and Equipment be evaluated for impairment under certain conditions.

Condition: The Guild's Property, Plant and Equipment construction was substantially delayed and incurred substantial costs over the original estimate.

Cause: Delays in construction before and after Hurricane Katrina changed requirements for construction, which caused this condition.

Effect: The Property, Plant and Equipment may require write-down to fair value to be in conformity with generally accepted accounting principles.

Recommendation: The Guild should consider an appraisal or other form of valuation.

Management's
Response and
corrective actions:

Management is in process of determining if an effective valuation can be obtained.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

Part II - Findings and Questioned Costs relating to Federal Awards

2008-5 Physical Inventory of Equipment

Criteria:	The Guild is required to perform a physical inventory of equipment in excess of \$5,000 acquired with funds received through a federal award at least every two years in order to fulfill the real property and equipment requirements of the federal award and OMB Circular A-110 .
Condition:	The Guild did not perform a physical inventory of equipment acquired under the HUD Section 108 Loan Guarantees for the years ending December 31, 2004, December 31, 2005, December 31, 2006, December 31, 2007, or December 31, 2008.
Cause:	Due to a staffing issue the Guild was unable to perform a physical inventory for the year ended December 31, 2008.
Effect:	The Guild is noncompliant with the equipment and real property requirements of the federal award received from HUD.
Recommendation:	We recommend that the Guild perform a physical inventory of all equipment acquired under the HUD Section 108 Loan Guarantees.
Management's Response and corrective actions:	The Guild acknowledges the need for the physical inventory and has scheduled staff and time to perform this task by December 31, 2009.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2008

Part I - Findings Related to the Financial Statements Reported in accordance with Government Auditing Standards

2007-1 Disbursement Supporting Documentation

Condition: A sample of forty disbursements was reviewed, of which seven disbursements were lacking proper supporting documentation.

Current Status: Resolved.

2007-3 Internal Control Over Financial Reporting

Condition: P&N proposed adjusting entries.

Current Status: Unresolved. See 2008-1.

2007-4 Timely Submission of Audit Report To Legislative Auditor

Condition: The audit report was submitted to the Louisiana Legislative Auditor beyond the required six months following the fiscal year end. Extensions request were submitted to extend the due date to November 15, 2008.

Current Status: Unresolved. See 2008-2.

Part II - Findings and Questioned Costs relating to Federal Awards

2005-3 Default On HUD Section 108 Loan

Condition: The Guild has a \$7,047,138 loan from the City of New Orleans funded by HUD. The loan covenant requires quarterly payments in the amount of \$152,587 per quarter. The Guild's last payment was for the quarter payment due October 15, 2003. The principal and interest payments totaling \$610,348 for each of the years ending 2004 and 2005 were waived through December 31, 2005 by the City of New Orleans in a letter dated April 27, 2005, revised June 2, 2005. Subsequent to the year ended December 31, 2005, the Guild was in default on the loan covenant until a waiver was obtained on January 22, 2007 for the principal and interest payments due through December 31, 2007.

LOUISIANA ARTISTS GUILD
NEW ORLEANS, LOUISIANA

SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2008

Part II - Findings and Questioned Costs relating to Federal Awards (continued)

2005-3 Default On HUD Section 108 Loan (continued)

Current Status: Resolved. Currently the Guild entered into an agreement with the City of New Orleans on May 15, 2009, whereby the City of New Orleans waived all debt ratio requirements, penalties on arrearages, and declaration of default on non-payment of principal and interest obligations until December 31, 2009.

2007-2, 2005-5 Physical Inventory of Equipment

Condition: The Guild did not perform a physical inventory of equipment acquired under the HUD Section 108 Loan Guarantees for the years ending December 31, 2005 or December 31, 2004.

Current Status: Unresolved. See 2008-5.